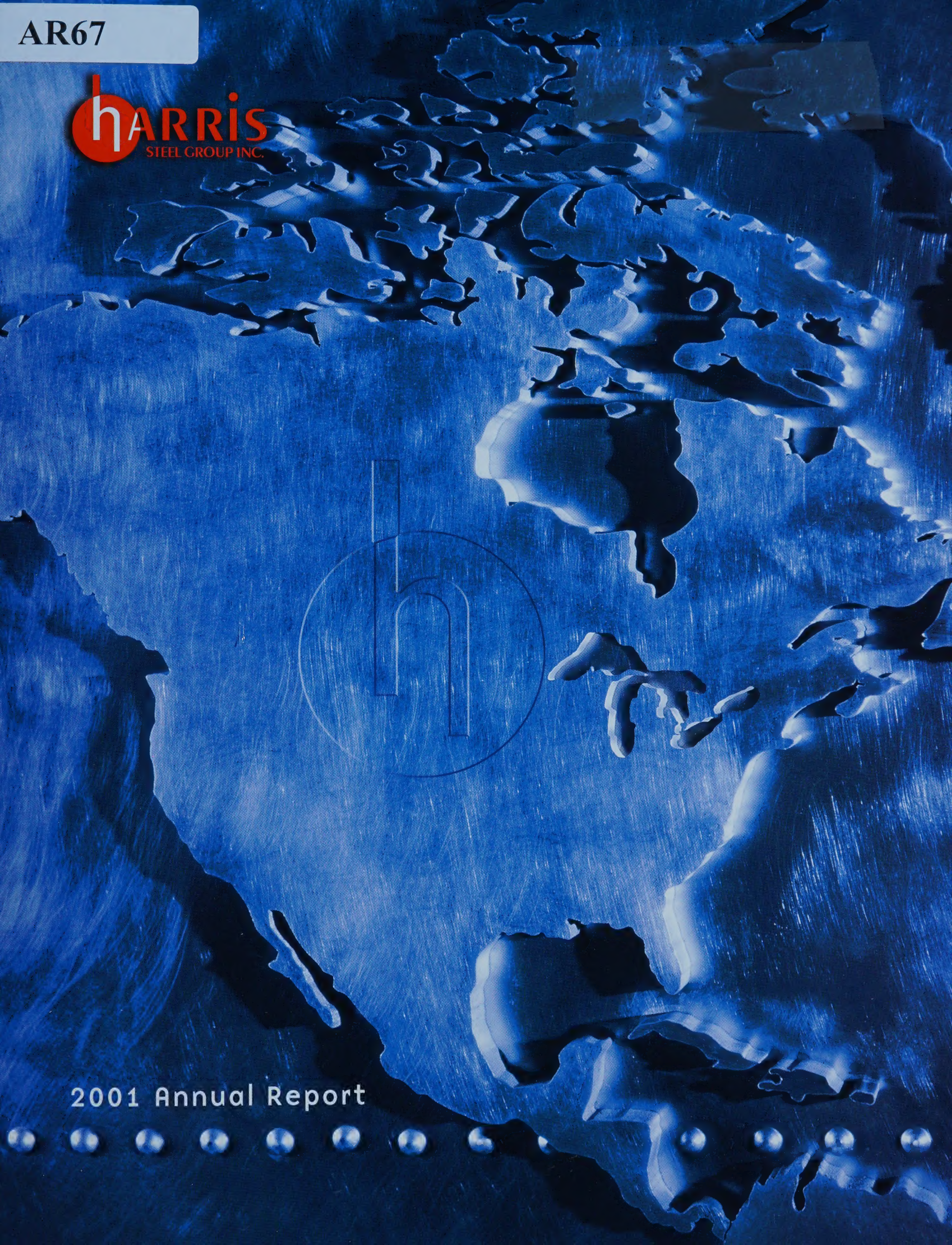
HARRIS
STEEL GROUP INC.



2001 Annual Report

DESCRIPTION OF THE BUSINESS

Harris Steel Group Inc. operates as a steel trading business, purchasing steel from mills and fabricating that steel into a variety of products for sale to its customers. Through its subsidiaries, the company is engaged in the fabrication and placing of concrete reinforcing steel; the production and marketing of epoxy-coated reinforcing steel; the design and installation of concrete post-tensioning systems; the manufacture and distribution of wire and wire products, welded wire mesh and cold finished bar; and the manufacture and distribution of heavy industrial steel grating, aluminum grating and expanded metal.

The company serves all of Canada, and the eastern, central and western United States.

Harris became a public company in 1967 and has paid dividends since 1972.

Annual Meeting

All shareholders are cordially invited to attend the annual meeting on Thursday, June 20, 2002, at 2:00 p.m. in the Casson Meeting Room, Hilton Toronto Hotel, 145 Richmond St. West, Toronto, Ontario.

FINANCIAL HIGHLIGHTS

Harris Steel Group Inc.

Years ended December 31

(Dollars in thousands except per share amounts)

	2001	2000
Operating results		
Sales	**$558,712**	$603,249
Net earnings for the year	**29,885**	37,426
Return on sales	**5.3%**	6.2%
Per Share		
Net earnings for the year	**$ 4.43**	$ 5.54
Dividends	**.24**	.24
Shareholders' equity	**26.83**	22.64
Average shares outstanding	**6,742,080**	6,755,157
Shares outstanding – at year-end	**6,742,080**	6,742,080
At year-end		
Total assets	**$254,002**	$270,621
Current debt	**4,067**	42,933
Shareholders' equity	**180,894**	152,627
Total debt/equity ratio	**.02:1**	.28:1
Current ratio	**2.9:1**	2.0:1
Number of employees	**1,490**	1,230
Number of shareholders – Class A	**123**	167
– Class B	**82**	121

REPORT TO THE SHAREHOLDERS

I am again extremely pleased to report outstanding results for 2001. Although there was some erosion in our selling prices, the cost of steel from our suppliers remained severely depressed.

The slowing of the economy affected our volumes, particularly in our industrial steel products.

Nevertheless, we had another banner year and have greatly improved our key financial indicators:

- our Shareholders' Equity has increased from \$152.6 million to \$180.9 million
- the most important indicator that we use to manage our operations, working capital, has increased from \$115.4 million to \$135.7 million
- our Total Bank Debt has been reduced from \$42.9 million to \$4.1 million
- Total Bank Debt to Equity ratio has been reduced from .28:1 to .02:1.

Capital expenditures in excess of Depreciation was slightly reduced from \$9.5 million to \$8.2 million. Our major capital program, begun in 2000, was mainly complete by the end of 2001. There is, however, still some need for additional capital expenditures. We are presently examining these proposed new projects.

In my November 22, 2001 Report to Shareholders for the Nine Months, I had reported on the investigation by the U.S. International Trade Commission (ITC) of steel imports into the U.S. under the safeguard provisions of their trade legislation. The ITC had found that our main export product, cold-finished bar (CFB) was damaging the U.S. industry. We vigorously opposed that finding.

On March 5, 2002, President Bush imposed prohibitive tariffs on most steel products entering the U.S. But the North American Free Trade Agreement (NAFTA) partners, Canada and Mexico were excluded. The President also declared, however, that exports from the NAFTA countries would be monitored to prevent a surge. This monitoring program has not yet been fully fleshed out by the U.S. Administration, but will certainly require us to carefully control our exports to the U.S. This whole action illustrates the risk to our business because there is a border between us and the main market for one of our principal products.

I have always been an active promoter of enhanced integration of the Canadian and American marketplaces. The Free Trade Agreement with the United States (FTA), that I actively supported, and then NAFTA, have greatly improved our access to the United States market. Without NAFTA, the recent U.S. action would have dealt a catastrophic blow to the Canadian Steel Industry and our profitability would have been severely impacted.

Nevertheless, there are still deficiencies in NAFTA. So far, the NAFTA treaty makes it more difficult to include Canada in a safeguard action, but that is not so with dumping and subsidy actions. Canadians only need to look at the 29% tariffs unfairly imposed on our softwood lumber exports to the U.S. to understand what can still happen at any time.

From 1998 through 2001 we have enjoyed the kind of windfall that steel traders such as us could only dream about: relatively-firm prices for our products and disastrously-weak pricing for our suppliers. The inevitable counterpart to that is prices rising much more quickly for our suppliers than for us. Without that happening our supplier base will dwindle.

We are already witnessing a deluge of substantial steel price increases at the supplier mills that is moving much faster than we are able to raise prices to our customers.

Nevertheless, we still expect to report satisfactory results for the 2002 year.

In order to improve saleability of the stock for shareholders who might want to sell, the Board has decided to reinstate our Normal Course Issuer Bid.

Since 1972, when we instituted our unique profit-sharing plan, we have been convinced that no company has been able to achieve our level of profitability in our major product lines.

We are convinced that our unique culture has resulted in an extraordinarily-motivated workforce and management team. This energetic and resourceful group of employees has produced our consistently outstanding results.

I can assure all of our employees that their successful efforts have been appreciated by the Board and Shareholders.

M.E. Harris

Milton E. Harris, O.C.
Chairman of the Board and C.E.O.
Toronto, Ontario, May 9, 2002

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the accompanying consolidated financial statements and for assessing their objectivity and integrity. Management believes that the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and fairly report the company's financial position and results of operations. The consolidated financial statements include amounts that are based upon estimates and judgements which management believes are reasonable under the circumstances. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP in accordance with Canadian generally accepted auditing standards, providing independent verification of management's presentation of the company's financial position. Management has established the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. Harris Steel Group Inc. has an Audit Committee of which all of the members are neither officers nor employees of the company. The Committee meets during the year and has full and unrestricted access to the company's auditors to ensure the integrity of management's financial reporting and the adequacy of the system of internal controls.

M.E. Harris

Milton E. Harris, O.C.
Chairman of the Board and C.E.O.

D. Deighton

Douglas Deighton, C.A.
Treasurer

Toronto, Ontario, April 12, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Harris Steel Group Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Ontario, April 12, 2002

CONSOLIDATED BALANCE SHEETS

As at December 31, 2001 and 2000

Assets	**2001**	2000
Current Assets		
Accounts receivable	$ **113,167,731**	$ 120,432,949
Inventories (note 2)	**90,029,224**	109,080,308
Prepaid expenses and deposits	**2,291,766**	806,607
	205,488,721	230,319,864
Property, Plant and Equipment (note 3)	**48,513,131**	40,301,484
	$ **254,001,852**	$ 270,621,348

Liabilities		
Current Liabilities		
Bank indebtedness (note 4)	$ **4,067,241**	$ 42,933,319
Accounts payable and accrued liabilities	**57,639,282**	61,054,354
Income and other taxes payable	**4,427,741**	5,599,704
Future income taxes (note 5)	**3,666,020**	5,339,600
	69,800,284	114,926,977
Future Income Taxes (note 5)	**3,307,690**	3,067,400
	73,107,974	117,994,377

Shareholders' Equity		
Capital Stock (note 6)	**14,149,156**	14,149,156
Retained Earnings	**166,744,722**	138,477,815
	180,893,878	152,626,971
	$ **254,001,852**	$ 270,621,348

SIGNED ON BEHALF OF THE BOARD

Milton E. Harris

Barrie D. Rose

CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2001 and 2000

	2001	2000
Sales	$ 558,712,313	$ 603,249,428
Cost of Sales	478,245,140	510,187,141
Gross Operating Margin	80,467,173	93,062,287
Expenses		
Selling and administrative	31,865,029	29,030,971
Foreign exchange gains	(2,631,392)	(2,238,921)
Interest	1,641,251	3,060,089
Depreciation	3,593,649	3,202,984
	34,468,537	33,055,123
Earnings Before Income Taxes	45,998,636	60,007,164
Provision For (Recovery Of) Income Taxes (note 5)		
Current	17,546,920	21,834,389
Future	(1,433,290)	747,000
	16,113,630	22,581,389
Net Earnings For the Year	$ 29,885,006	$ 37,425,775
Net Earnings Per Share	$ 4.43	$ 5.54

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 2001 and 2000

	2001	2000
Balance – Beginning of Year	$ 138,477,815	$ 104,323,448
Adjustment to reflect the adoption of the liability method of accounting for future income taxes (note 5)	–	315,924
	138,477,815	104,639,372
Excess of the purchase price over the paid-up value of the company's shares purchased (note 6)	–	(1,967,859)
	138,477,815	102,671,513
Net earnings for the year	29,885,006	37,425,775
	168,362,821	140,097,288
Dividends (note 6)	(1,618,099)	(1,619,473)
Balance – End of Year	$ 166,744,722	$ 138,477,815

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash Inflow (Outflow) Related to the Following:		
Operating Activities		
Net earnings for the year	$ 29,885,006	$ 37,425,775
Depreciation	3,593,649	3,202,984
Future income taxes – long-term	240,290	454,124
Foreign exchange loss on bank indebtedness held in foreign currency	1,001,070	662,134
Decrease (increase) in operating working capital	18,570,528	(31,550,987)
	53,290,543	10,194,030
Investing Activities		
Net additions to property, plant and equipment	(11,805,296)	(12,743,422)
Financing Activities		
Purchase of shares of the company	–	(2,311,519)
Dividends	(1,618,099)	(1,619,473)
(Decrease) increase in bank indebtedness	(38,866,078)	7,142,518
	(40,484,177)	3,211,526
Foreign exchange loss on bank indebtedness held in foreign currency	(1,001,070)	(662,134)
Cash – Beginning and End of Year	$ –	$ –
Supplemental Cash Flow Disclosures:		
Interest paid	$ 1,653,455	$ 2,352,216
Income taxes paid	$ 18,313,226	$ 15,653,340

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2001 and 2000

1. Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

(b) Revenue recognition

The company recognizes sales revenue when products are shipped and collection is reasonably assured.

(c) Foreign exchange

The company applies the temporal method of accounting for the translation into Canadian dollars of foreign currency amounts and the accounts of its U.S. subsidiaries, all of which are integrated operations. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and related depreciation and amortization are translated at historical exchange rates. Revenues and expenses, other than depreciation and amortization, are translated at the average exchange rate for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in earnings.

(d) Inventories

The company values its inventory at the lower of cost and market. Cost is determined on a first-in, first-out basis. Market is defined as replacement cost for raw materials and net realizable value for work-in-process and finished goods.

(e) Property, plant and equipment

Property, plant and equipment are recorded at the lower of net recoverable amounts and historical cost less accumulated depreciation. The company depreciates its land improvements, buildings, data processing equipment and machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Land improvements	- 7½%
Buildings	- 2½%
Machinery and equipment	- 7½%
Data processing equipment	- 33⅓%
Mobile equipment	- 30%

Gain or loss on disposal of individual assets is reflected in earnings in the year of disposal.

(f) Income taxes

The company follows the liability method of accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheet are used to determine future income tax liabilities or assets. Substantively enacted tax rates are used to calculate future income tax liabilities and assets. Prior to January 1, 2000, the company followed the deferral method of accounting for income taxes.

(g) Net earnings per share

Net earnings per share are calculated on 6,742,080 shares (2000 – 6,755,157 shares), being the weighted average number of shares outstanding during the year.

(h) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Inventories

	2001 $	2000 $
Raw materials and work-in-process	**73,111,401**	95,380,804
Finished goods	**16,917,823**	13,699,504
	90,029,224	109,080,308

3. Property, Plant and Equipment

2001

	Cost $	Accumulated depreciation $	Net book value $
Land	3,281,744	–	3,281,744
Land improvements	2,625,806	1,215,556	1,410,250
Buildings	18,818,003	4,588,947	14,229,056
Machinery and equipment	59,365,060	32,026,274	27,338,786
Data processing equipment	2,991,430	2,360,568	630,862
Mobile equipment	5,699,032	4,076,599	1,622,433
	92,781,075	44,267,944	48,513,131

3. Property, Plant and Equipment (continued)

2000	Cost $	Accumulated depreciation $	Net book value $
Land	2,368,215	–	2,368,215
Land improvements	2,349,912	1,082,015	1,267,897
Buildings	16,349,685	4,173,196	12,176,489
Machinery and equipment	49,675,505	29,885,882	19,789,623
Data processing equipment	2,797,611	2,082,894	714,717
Mobile equipment	5,032,794	3,586,233	1,446,561
Assets under construction	2,537,982	–	2,537,982
	81,111,704	40,810,220	40,301,484

4. Bank Indebtedness and Financial Instruments

Bank borrowings are repayable on demand and bear interest at or less than bank prime lending rates. Inventories and accounts receivable are pledged as collateral for the company's bank indebtedness.

The carrying values of all of the company's financial instruments (cash on deposit, short-term bank loans, accounts receivable and accounts payable) approximate their fair values.

5. Income Taxes

Effective January 1, 2000 the company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. Previously, the deferral method was used, based on differences between the timing of reporting income and expenses in the company's financial statements and tax returns. The new method was applied retroactively.

The effect of the new recommendations on the opening 2000 financial statements was to increase (decrease) the following:

Retained earnings	$ 315,924
Future income taxes	$ (315,924)

The components of future income tax liabilities are as follows:

	2001 $	2000 $
Current		
Holdbacks and amounts not due on contracts	**4,924,330**	6,167,000
Other temporary differences	**(1,258,310)**	(827,400)
	3,666,020	5,339,600
Long-term		
Property, plant and equipment	**3,526,690**	3,331,400
Other temporary differences	**(219,000)**	(264,000)
	3,307,690	3,067,400

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates is as follows:

	2001 %	2000 %
Canadian and U.S. basic federal income tax rates	**36.8**	36.7
Provincial and state taxes net of federal deductions	**4.8**	5.0
Statutory tax rate	**41.6**	41.7
Add (deduct) the tax effect of –		
Manufacturing and processing profits deduction	**(5.3)**	(4.8)
Non-taxable foreign exchange gains	**(1.5)**	(0.6)
Federal surtax	**0.8**	0.8
Capital taxes	**0.5**	0.4
Future income tax enacted rate changes	**(2.1)**	(0.1)
Other	**1.0**	0.2
Effective tax rate	**35.0**	37.6

6. Capital Stock and Dividends

	2001 $	2000 $
Capital stock -		
Authorized -		
An unlimited number of Class A non-voting shares		
An unlimited number of Class B shares		
100 common shares		
Issued and outstanding –		
4,451,230 Class A non-voting shares (2000 - 4,451,230 shares)	**13,565,112**	13,565,112
2,290,850 Class B shares (2000 - 2,290,850 shares)	**584,044**	584,044
	14,149,156	14,149,156

Voting rights

Class A non-voting shares are not entitled to vote unless the company has failed to pay dividends totalling 2½¢ per Class A non-voting share for eight consecutive fiscal quarters. Thereafter, each Class A non-voting share is entitled to one vote until, in any fiscal quarter, a dividend of 2½¢ per Class A non-voting share has been paid or declared and set aside for payment.

Each Class B share is entitled to one vote at all meetings of the shareholders.

Dividends

Class A non-voting shares are eligible to receive a preferential, non-cumulative, quarterly dividend of 2½¢ per share.

Class B shares are not eligible to receive a dividend in any quarter until a dividend of 2½¢ per share has been paid on the Class A non-voting shares. Thereafter, Class B shares are eligible for a dividend of up to 2½¢ per share in any quarter.

Dividends in excess of 2½¢ per share in any quarter will be paid equally on the Class A non-voting shares and Class B shares.

During 2001, the company paid dividends of 24¢ (2000-24¢) per issued Class A non-voting share and Class B share.

Take-over protection

The Class A non-voting shares become convertible into Class B shares on a share-for-share basis after the holders of a majority of the outstanding Class B shares accept a bona fide offer, which must, by reason of applicable securities laws or stock exchange by-laws, regulations or policies, be made to each holder of Class B shares whose last recorded address is in the jurisdiction to which the relevant requirement applies.

Issuer Bids

No purchases were made under normal course issuer bids during the year. The normal course issuer bid expired May 16, 2001.

During 2000, the company made market purchases under a normal course issuer bid of 112,400 Class A non-voting shares and 4,400 Class B shares for cash consideration of $2,311,519 (for an average price of $19.79 per share). The excess of the purchase price over the paid-up value of the shares purchased, which totalled $1,967,859, was charged to retained earnings.

7. Segment Disclosures

The company operates as a steel trading business in Canada and the United States.

Geographic information is as follows:

Sales

	Canada $	United States $	Total $
2001	**319,317,618**	**239,394,695**	**558,712,313**
2000	377,197,246	226,052,182	603,249,428

In 2001, the company's Canadian business had direct sales to customers in the United States of approximately $99 million (2000 – $117 million). Aggregate direct sales to U.S. customers amounted to approximately $338 million (2000 – $343 million).

7. Segment Disclosures (continued)

Property, Plant and Equipment

	Canada $	United States $	Total $
2001	**38,549,740**	**9,963,391**	**48,513,131**
2000	34,108,909	6,192,575	40,301,484

8. Commitments

The company is required to make aggregate future minimum lease payments of $9,937,150 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 2001. Annual lease payments during the next five fiscal years and aggregate payments thereafter are as follows:

	$
2002	2,388,738
2003	2,292,057
2004	1,920,490
2005	1,628,098
2006	899,862
Thereafter	807,905

9. Contingent Liabilities

The company's subsidiaries have operations throughout the United States and Canada and in the normal course of business, the company and its subsidiaries are named as defendants in various legal actions. The company is of the opinion that actions outstanding will not result in material detriment to the company.

10. Comparative Figures

Certain prior year comparative figures have been reclassified to conform to the current year presentation.

FINANCIAL SUMMARY

(Dollars in thousands except per share amounts)

	2001	2000	1999	1998	1997
Operating results					
Sales	$ **558,712**	$ 603,249	$ 505,254	$ 469,901	$ 401,875
Net earnings for the year	**29,885**	37,426	32,456	26,656	13,616
Return on sales	**5.3%**	6.2%	6.4%	5.7%	3.4%
Per Share					
Net earnings for the year	$ **4.43**	$ 5.54	$ 4.65	$ 2.77	$ 1.32
Dividends	**.24**	.24	.24	.24	.24
Shareholders' equity	**26.83**	22.64	17.32	13.00	10.61
Average shares outstanding	**6,742,080**	6,755,157	6,973,932	9,633,230	10,313,747
Shares outstanding – at year-end	**6,742,080**	6,742,080	6,858,880	6,991,180	10,149,030
At year-end					
Total assets	$ **254,002**	$ 270,621	$ 214,119	$ 199,383	$ 201,739
Working capital	**135,688**	115,393	90,984	64,368	81,123
Current ratio	**2.9:1**	2.0:1	2.0:1	1.6:1	1.9:1
Property, plant and equipment	$ **48,513**	$ 40,301	$ 30,761	$ 28,868	$ 27,666
Future income taxes – long-term	**3,308**	3,067	2,929	2,327	1,086
Current debt	**4,067**	42,933	35,791	63,316	46,120
Long-term debt	**–**	–	–	–	–
Shareholders' equity	**180,894**	152,627	118,816	90,909	107,703
Total debt/equity ratio	**.02:1**	.28:1	.30:1	.70:1	.43:1

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